



ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson
Director*

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

**Monday, June 27, 2011
1 p.m., Arizona Time**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. David Byers, Chair of the ASRS Board, called the meeting to order at 1:04 p.m., Arizona Time.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. David Byers, Chair
Mr. Tom Connelly, Vice-chair
Mr. Chris Harris
Professor Dennis Hoffman
Mr. Tom Manos
Mr. Kevin McCarthy
Mr. Michael Townsend
Mr. Larry Trachtenberg
Mr. Steve Zeman

A quorum was present for the purpose of conducting business.

2. Approval of the Minutes of the May 10, 2011 Public Meeting and Executive Session and the May 20, 2011 Public Meeting of the ASRS Board

Motion: Mr. Steve Zeman moved to approve the minutes of the May 10, 2011 Public Meeting and Executive Session and the May 20, 2011 Public Meeting of the ASRS Board. Mr. Chris Harris seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

3. Approval, Modification, or Rejection of Recommended Administrative Law Judge's Decision Regarding Mr. John McNeill's Appeal Regarding a Service Purchase Request of Town of Fountain Hills Council Service

Ms. Jothi Beljan, Assistant Attorney General, addressed the Board regarding John R. McNeill's service purchase request. Mr. McNeill was not present. Ms. Beljan provided a brief summary, noting the following points:

- Mr. McNeill placed a service purchase request pursuant to A.R.S. § 38-743 – Public service credit to purchase his service as a town councilman at the Town of Fountain Hills from June 2000 – February 2002.

- A.R.S. § 38-743 allows active ASRS members to purchase previous public employment with the United States, a state, or political subdivision.
- In her Recommended Decision dated June 2, 2011, Administrative Law Judge Diane Mihalsky upheld the ASRS Director's determination that town council service is not public employment that is eligible for ASRS purchase.

Motion: Mr. Michael Townsend moved to accept the ruling of the Administrative Law Judge. Mr. Kevin McCarthy seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

4. Presentation, Discussion and Appropriate Action Regarding the Third Amendment to the Supplemental Retirement Savings Plan (SRSP) Plan Statement

Mr. Pat Klein, Assistant Director, External Affairs, and Ms. Lesli Sorensen, Government Relations Officer, addressed the Board regarding the Third Amendment to the SRSP Plan Statement. Ms. Sorensen explained, the Third Amendment to the Fifth Amended and Restated Plan Statement makes changes required by the Internal Revenue Service for the issuance of a favorable Determination Letter. A Determination Letter means that the Plan is qualified to accept pre-tax contributions. Ms. Sorensen noted specifically, the Amendment:

- States that employer matching contributions shall be allocated based on a percentage of the Participant's compensation or as an Employer-specified dollar amount. This change ensures that matching contributions are allocated according to a "predetermined formula," as required by law.
- Clarifies that upon a partial termination of the Plan, a Participant is fully vested. Participants are already fully vested upon complete termination of the Plan. This provision is also required by law.

Motion: Mr. Chris Harris moved to adopt the Third Amendment to the Fifth Amended and Restated ASRS Supplemental Retirement Savings Plan;

and,

authorize the Director of the ASRS to execute such Third Amendment for and on behalf of the Board. Mr. Michael Townsend seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

5. Presentation, Discussion and Appropriate Action Regarding Awarding of the Actuarial Services Contract

Mr. Pat Klein addressed the Board regarding the award of contracts for actuarial services. The request for proposal was issued March 14, 2011, and four proposals were received for services specific to the ASRS. Mr. Klein explained the ASRS Evaluation Committee included Mr. Steve Zeman, Board Trustee, the Deputy Director, the Assistant Directors of Financial Services and External Affairs, with the Director serving as a technical resource, and was led by the ASRS Chief Procurement Officer. The Evaluation Committee analyzed each proposal and concurs with the Procurement Officer's determination regarding the Actuarial Services Contract awards.

Motion: Mr. Steve Zeman moved to concur with the Chief Procurement Officer's determination to award the actuarial contract, with Buck Consultants to be retained as lead actuary and for special projects as needed, and Cavanaugh/MacDonald Consulting LLC and Gabriel, Roeder,

Smith & Company to be retained for special projects as needed. Professor Dennis Hoffman seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

6. Presentation, Discussion and Appropriate Action Regarding the Organizational and Financial Status and Trajectory of the ASRS

Mr. Paul Matson, Director, addressed the Board regarding his preliminary summary view of the ASRS programs:

- Pension Plan
- Health Insurance Program
- Long Term Disability Program
- Supplemental Defined Contribution Program

Mr. Matson presented his perspective on strengths and areas for strategic focus within each program. He noted the discussion was intended to assist the management team with resource allocation and decision making, and to assist the Board in preparing for the September Board Strategic Planning Session. Discussion ensued regarding the presentation.

7. Presentation, Discussion and Appropriate Action Regarding the SB 1609 Defined Contribution and Retirement Study Committee

Mr. Matson addressed the Board regarding the SB 1609 Defined Contribution and Retirement Study Committee. SB 1609 was signed by the Governor on April 29, 2011. Mr. Matson said the Defined Contribution and Retirement Study Committee Legislation:

- Establishes a Defined Contribution and Retirement Study Committee made up of the State Board of Investment, three Senators, three Representatives, one ASRS Trustee, and one PSPRS Trustee.
- Requires the Committee to study and make recommendations regarding:
 - The feasibility and cost of transferring existing members of the DB Plans to a new DC Plan, as well as implementing a DC Plan for new hires.
 - The advantages and disadvantages of ASRS and PSPRS-sponsored supplemental retirement plans and the feasibility of merging the supplemental plans.
 - The definitions of compensation, average yearly salary and salary of all four plans, especially with respect to salary-spiking.

Mr. Michael Townsend asked Mr. David Byers if he would be interested in serving on the Committee since he has done an outstanding job on the ASRS Board and has been involved with the legislature. Mr. Byers affirmed his interest and suggested Mr. Tom Manos serve as his substitute, if he was so inclined, should Mr. Byers be unavailable due to a schedule conflict. Mr. Manos said he was interested.

Motion: Mr. Michael Townsend moved to appoint Mr. David Byers to serve on the Senate Bill 1609 Defined Contribution and Retirement Study Committee. Mr. Larry Trachtenberg seconded the motion.

By a vote of 8 in favor, 0 opposed, 1 abstention, and 0 excused, the motion was approved.

8. Presentation, Discussion and Appropriate Action Regarding ASRS Investment Related Matters in the ASRS Board Governance Policy Handbook

Mr. Matson addressed the Board regarding investment related matters in the ASRS Board Governance Policy Handbook. He explained the Investment Committee recommends the Board approve two modifications to the Handbook as it relates to investments:

- Create the Director's Public Markets Committee (PUBMC) and Private Markets Committee (PRIVMC) to supplant the current responsibilities of the Opportunistic Committee, Real Estate Committee, Private Equity Committee, and Public Markets Committee.
- Clarify the use of Asset Class Consultants consistent with the new private and public markets committees' mandates.

Mr. Matson pointed out, the following pros and cons relate to modifying the existing structure of the Director's Asset Class Committees:

Pros:

- Improve the ASRS investment decision-making process by developing a synergistic framework which provides the ability to evaluate similar or closely related types of investments in a single committee construct.
- Improve the efficiency, effectiveness and time allocation of Trustees, staff and consultants.
- Simplify logistics and meeting coordination.

Cons:

- Eliminates the existing asset class committee structure which utilizes a single designated consultant.

A brief discussion ensued regarding clarifying the suggested modifications.

Motion: Mr. Tom Connelly moved to approve modifications to the ASRS Board Governance Policy Handbook as presented and relates to investments and the creation of the Director's Public Markets Committee and Private Markets Committee to supplant the current responsibilities of the Opportunistic Committee, Real Estate Committee, Private Equity Committee, and Public Markets Committee, subject to the changes discussed on the second page of the attachment, item c., changed to "Trustees as non-voting members as appointed by the IC Chair" and item a., substitute "and/or" for "or." Mr. Larry Trachtenberg seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

9. Presentation, Discussion and Appropriate Action Regarding the ASRS Fund Positioning and Rebalancing Policy

Mr. Matson addressed the Board regarding modifications to the ASRS Strategic Investment Policy SIP 002 – Total Fund Positioning and Rebalancing. ASRS' Investment Management Division (IMD) and staff conducted a holistic review and analysis of its philosophy, decision-making inputs, processes and documentation associated with managing the ASRS fund positioning and rebalancing activities. Mr. Matson pointed out the key aspects of the policy:

- Depending on valuation metrics consistent with IMD Investment House Views, asset

class position movements away from policy targets but within the targets, bands may occur.

- If the magnitude of the difference is outside the adjusted policy target bands, rebalancing or repositioning back into policy bands will occur.
- If the magnitude of the difference is within the adjusted policy target bands, rebalancing or repositioning may occur toward or away from the targets but not beyond the bands.

Mr. Matson said the modifications are being made to clarify the process and activities associated with the strategic and tactical management of ASRS asset classes relative to its Strategic Asset Allocation Policy.

Discussion ensued regarding target bands. Mr. Connelly and Mr. Matson said more research will be conducted regarding target ranges and alternatives to ranges. Trustees agreed the modifications were a good first step and requested more discussion about target ranges at a future IC meeting.

Motion: Mr. Tom Connelly moved to approve modifications to the ASRS Strategic Investment Policy SIP 002 as presented in the Total Fund Positioning and Rebalancing Policy. Mr. Chris Harris seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

10. Presentation, Discussion and Appropriate Action Regarding Public Records Requests

Ms. Nancy Bennett, Chief Financial Officer, and Ms. Tamara Wilson, Membership Accounting Manager, Financial Services Division and Information Privacy Officer, addressed the Board regarding public records requests. Ms. Bennett noted there is a contrast between the public right to access information and the members' rights to privacy. Ms. Wilson explained, as a public agency, the ASRS is subject to Arizona Public Records Law. She noted there are numerous state statutes governing the release and/or the inspection of public records. Ms. Wilson gave a presentation on fair information practices, ASRS guidelines and policies, and possible future courses of action to take regarding member confidentiality.

Discussion ensued regarding member confidentiality. Consensus of the Board seemed to indicate strengthening privacy of member data via internal agency procedures for the short term with possible future legislative efforts for the longer term.

11. Presentation, Discussion and Appropriate Action Regarding Spousal Notification/Community Property

Mr. Klein addressed the Board regarding policies and statutes on spousal notification and community property. He explained, over the past year, the ASRS has received a handful of appeals from spouses of deceased ASRS members who were denied survivor or contingent annuitant benefits due to the member's beneficiary or retirement election. In one appeal, a ruling by an Administrative Law Judge found that a non-beneficiary spouse retained community property rights to a benefit resulting from contributions made during the marriage. Mr. Klein noted as a result of the ruling, the ASRS clarified instructions on the beneficiary form, the beneficiary page on the ASRS website, and the retirement application, and changed applicable policies and procedures to allow a spouse to timely assert a community property right.

Discussion ensued regarding expanding the notification requirements so members' spouses would be informed of their spouse's beneficiary elections. Trustees expressed interest in protecting spouse's community property rights, possibly by requiring both spouses' notarized

signatures on beneficiary election forms. The Board discussed community property rights versus the members' right to choose a beneficiary.

Trustees considered whether the ASRS should use the same rules as the Employee Retirement Income Security Act (ERISA) uses if someone other than the spouse is named as beneficiary. The Board requested staff to present ideas at a future Board meeting.

12. Presentation, Discussion and Appropriate Action Regarding the ASRS Advocating with Respect to Benefit Modification Legislation and Other Legislative Initiatives

Mr. Klein addressed the Board regarding the agency's authority for, and current approach to, advocating legislation. He said, in early 2011, a request was made for a discussion about the role of the Board and staff in developing positions on legislation potentially involving benefit modification and communicating those positions to the legislature. The Board discussed the current process regarding agency advocating. In summary, the current process includes the soliciting and vetting by staff, Trustees, and other interested parties of potential legislative initiatives. Such identified initiatives are presented to the agency executive management, the External Affairs Committee and, ultimately, to the Board for approval as well as direction on advocacy position. During the legislative session, issues, counter proposals, and new legislation proposed by other parties affecting the ASRS fund and/or agency or plan operations generally surface that require immediate review. Usually the Director discusses such issues, etc., with staff to formulate a reasonable approach. The Director may also discuss such issues with the Board chair for concurrence and/or direction and legal staff for input.

The Director suggested a simple protocol whereby if new legislation arises, the Director determine, based upon the magnitude of the issue, if consultation with the Board Chair is appropriate. The Director would then disseminate the ASRS position. If the legislative initiative was a benefit modification, then the Director would not support or oppose it, but could provide relevant information. If the legislative initiative was not a benefit modification, then the Director could support or oppose the initiative as well as provide relevant information. The Board requested that this recommendation be documented by staff.

13. Presentation, Discussion and Appropriate Action Regarding the Director's Report as well as Current Events

Mr. Matson presented the Director's Report. He said the private investment cash flows have increased since the prior year. The Board asked what the current rate of return for FY11 was. Mr. Gary R. Dokes, Chief Investment Officer, responded with a preliminary estimate of approximately 22%.

14. Presentation and Discussion with Respect to Informational Updates from the Operations Committee, Investment Committee, and External Affairs Committee

Mr. Michael Townsend, Chair, External Affairs Committee, said the next External Affairs Committee (EAC) will take place October 7, 2011.

Mr. Tom Connelly, Chair, Investment Committee (IC), said the next IC meeting will take place August 15, 2011.

Mr. Steve Zeman, Chair, Operations Committee (OC), said the next OC meeting will take place July 28, 2011. The budget update and the Biennial Risk Assessment for 2012/2013 will be discussed.

15. New Agenda Items

No requests were made.

16. Call to the Public

No requests to speak were made.

17. The next regular ASRS Board meeting is scheduled for Friday, July 15, 2011, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

18. Adjournment of the ASRS Board

Mr. Byers adjourned the Board meeting at 4:12 p.m.

ARIZONA STATE RETIREMENT SYSTEM

Lisa Maddox
Board Secretary

Date

Paul Matson
Director

Date